Boosting the competitiveness of EU capital markets

Introduction

The chair stated that. Europe stands at a critical crossroads. Amid geopolitical tensions, shifting alliances, and Asia's growing economic influence, it must rise above national divisions and reinforce its financial integration. While EU markets are generally robust, they remain too fragmented, with liquidity spread across numerous pools. Greater integration and simplification of regulations are needed, without discarding rules that work well. Developing retail investment in a fair and transparent manner, particularly by addressing inducement issues, and expanding supplementary pension systems are other key priorities.

1. Current level of competitiveness and main structural challenges

1.1 Underdevelopment of EU capital markets

A regulator noted that the competitiveness of European capital markets must be assessed within the broader context of Europe's overall financing ecosystem, which also includes banks, insurers, public-sector instruments…, which should complement one another to finance the economy efficiently. Improving the functioning of capital markets is essential, as they are still not fully "fit for purpose". Persistent fragmentation and inefficiencies in market infrastructure continue to hinder their ability to connect issuers and investors effectively.

An industry speaker observed that Europe has a strong corporate sector but lacks the "fuel" to power it effectively, particularly in equity financing compared with the US. Europe is severely underrepresented in global equity markets relative to its economic weight. The US accounts for over 70% of global market capitalisation in the MSCI World Index but only 46% of global GDP, while Germany and France each represent just 2.5% of global market capitalisation compared with 7.5% and 5% of global GDP respectively. Since 2020, companies from the US and elsewhere have raised \$370 billion through IPOs in the US, versus only \$101 billion in the EU.

Another industry speaker underlined that Europe's corporate bond markets also remain underdeveloped. The US corporate bond market raises around \$2 trillion annually, roughly ten times the amount raised through US equity markets. Strengthening these markets is critical for corporate financing, expanding investment opportunities and building pension asset pools.

An official noted that liquidity challenges persist particularly in Central and Southeastern Europe (CESE). While the market-cap-to-GDP ratio stands at about 200% in the US and 50% in Germany, most CESE countries are far lower, except Croatia with 30%. Corporate bond markets are even thinner, averaging 1.5% of GDP compared with 37% in Germany and 60% in France. Trading activity is also limited: only Poland stands out, with equity-market turnover of about 40% of GDP.

Another official added that competitiveness debates often compare the EU as a whole with global peers, overlooking disparities in national market development within the EU and the need to grow smaller markets. Low levels of market capitalisation and listings in several Member States make it difficult for them to engage fully in these discussions. In the Baltic states, for example, only one or two IPOs have taken place annually in recent years, reflecting limited market depth.

1.2 Fragmentation, liquidity and transparency challenges

A regulator stated that while MiFID has increased competition and reduced trading costs, it has also fragmented liquidity, weakening price formation and making listings less attractive. Only about 30% of liquidity now occurs on primary venues, with most trading shifting to less transparent platforms such as MTFs or systematic internalisers. Issuers face rising regulatory complexity and compliance costs, further discouraging them from going public. Although private markets play an important role in financing growing companies, their expansion has made public markets less appealing. Yet public markets remain essential for liquidity, transparency, and market discipline, enabling firms to sustain long-term growth and investor confidence.

Another regulator agreed that while both public and private markets play key roles, public markets remain essential for providing equity and debt financing at fair prices and sufficient scale.

An industry speaker underlined that equity and bond markets face distinct challenges. On the equity side, Europe's 27 national stock exchanges rarely compete with one another, limiting their ability to compete globally and reducing investor and issuer choice. In secondary markets, trading still occurs mainly on a company's primary national exchange, as cross-listing on multiple EU exchanges remains limited. In primary markets, issuers likewise have limited choice for new listings. By contrast, several US exchanges compete to list and trade the same securities, fostering innovation and better execution for investors.

In corporate bond markets, transparency is essential to boost liquidity. Current post-trade publication delays and deferral regimes undermine market transparency and risk limiting the effectiveness of the EU's planned bond consolidated tape. Improved pricing and liquidity could create a virtuous cycle supporting bond funds, ETFs, and credit derivatives, making bonds a more attractive vehicle for investment and capital formation.

1.3 An insufficiently effective funding escalator

A regulator noted that growth companies continue to leave Europe due to limited access to suitable funding, particularly during the scale-up stage.

An industry speaker highlighted that while banks continue to play an important role for smaller firms, innovative companies rely largely on equity investment. Smaller firms often remain confined to local ecosystems and face difficulty accessing wider funding sources. Private markets are crucial in bridging the gap between start-ups and public listing, but Europe faces a major shortfall in growth capital, for scale-up firms seeking €1–20 million in financing, which are too big for crowdfunding and angel funding yet too small for private equity funds. Addressing this gap should be a priority. In addition, financing must also be better aligned with entrepreneurs' needs and risk preferences. When firms reject funding at present, it is often because the terms are ill-suited to their realities.

1.4 Low retail participation

A regulator emphasised that for investors, costs are a key concern. However, fragmented infrastructures and multiple intermediaries increase costs, ultimately eroding returns. Retail investors should also be encouraged to adopt more balanced, long-term asset allocations to strengthen their financial resilience. In many Member States, household savings remain concentrated in low-yield deposits that are not protected against inflation and contribute little to the real economy, while a smaller group of investors engages in highly speculative trading or crypto-assets. This imbalance underscores the need for stronger financial literacy and incentives to channel savings into productive investments.

The chair noted that fostering investment in the middle of the risk spectrum, between safe deposits and speculation, is key to building more efficient markets.

2. Priorities for developing EU capital markets

2.1 A European approach to capital market development

Several panellists stressed that while US markets are often considered as the main benchmark or role model, Europe should not seek to replicate the US model but build solutions suited to its own economic, social, and regulatory context.

A regulator noted that the depth of the US market stems less from greater sophistication than from legal and structural unity. A single legal framework allows the trading and post-trading value chain to operate in an integrated manner, pooling liquidity and fostering competition at the trading level on the basis of a shared post-trading infrastructure, conditions difficult to reproduce in the EU. Retail markets also differ: US investors accept higher risks for potentially higher returns, while European markets prioritise investor protection and asset quality. The chair agreed that Europe must chart its own path, balancing market dynamism with strong investor safeguards.

2.2 Deepening market integration

A regulator stressed that fragmentation remains the main obstacle to efficient wholesale markets, which are essential for further developing European capital markets and deepening their liquidity. Fragmentation is rooted in the persistence of 27 national central securities depositories (CSDs) and divergent tax, insolvency, and corporate laws, which are hard to harmonise. These structural inefficiencies cannot be solved simply by creating holding structures that merge infrastructures at the ownership level, rather by introducing a '28th regime'.

An industry speaker argued that Europe's capital markets could become more competitive through greater consolidation, interoperability, and transparency across trading, clearing, and settlement infrastructures. Fewer but stronger exchanges with deeper liquidity would compete more effectively with MTFs and international venues, attracting more EU listings and improving outcomes for issuers and investors. In post-trading, consolidation may be difficult, but interoperability among CCPs and mandatory connection of all CSDs to T2S would be major advances.

Enhanced transparency, particularly through forthcoming consolidated tapes for equity and bond markets, would improve price discovery and investor confidence. The planned move to T+1 settlement is another positive step. In the US, this reform freed over $3 billion in clearing-fund capital and reduced corporate-bond transaction costs by about 12%, gains that can be replicated in Europe. The industry speaker also called for regulatory simplification, as overlapping reporting requirements under MiFIR, EMIR, REMIT, and SFDR create unnecessary administrative burdens.

2.3 Strengthening institutional investment

An industry speaker stressed the need to encourage institutional investors, particularly insurers and pension funds, to increase their equity exposure. Under current Solvency II capital requirements, long-term equity holdings are penalised even though they align with these institutions' long-term liabilities. Adjusting the framework to provide more favourable treatment for such long term assets would stimulate institutional demand and strengthen pension funding ratios. The industry speaker also advocated expanding public–private partnerships to channel capital into strategic infrastructure projetcs, notably data centres, citing initiatives in France and Germany as scalable models to reinforce Europe's equity ecosystem.

An official underlined that any European capital-market strategy must reflect the structure of its economy. While 60% of US workers are employed by large firms with over 300 employees, only a third of Europeans are, meaning Europe must ensure that capital-market financing is accessible not only to major corporates but also to smaller businesses. This calls for frameworks giving professional investors, such as asset managers and pension funds, a greater role, as retail investors are less equipped to assess SMEs, especially across borders. Although retail participation is important, a stronger base of professional investors is vital to broaden market access for SMEs.

2.4 Developing retail investment and supplementary pensions

A regulator stressed that strengthening retail participation and reforming pension provision are also essential to developing Europe's capital markets. Improving financial literacy should be the first priority to help households build more balanced, long-term portfolios. ETF savings plans on digital platforms already attract a younger, more digitally engaged generation, which is an encouraging trend. Equally important are tax incentives that promote long-term investment, as many Member States still reward guaranteed life-insurance products that tie up capital in low-risk assets rather than more productive ones. Pension reform is another key lever for mobilising long-term savings. However pensions largely remain a national competence. Policymakers must determine which products to incentivise across the three-pillar system and how to integrate capital-market investment into these schemes.

An industry speaker noted that developing Europe's retail equity markets requires building a stronger equity culture and ecosystem. Sweden provides a compelling example with its Investment Savings Account (ISK) launched in 1978. Simple design and strong tax incentives have led about 40% of Swedes to invest in equities, ETFs, or equity funds, compared with roughly only 14% (12 million people) in Germany. The lessons from this model are clear: investing must be simple, tax-advantaged, and product-neutral, covering a wide range of instruments such as UCITS, long-term asset funds, and insurance-linked products, without localisation constraints. A European label for long-term equity investments could further raise awareness, provided it is coupled with tax incentives to encourage participation.

2.5 Expanding market access for SMEs and growth companies

An industry speaker emphasised that start-ups rely on venture capital to grow, and venture capital in turn depends on efficient exit routes through IPOs and public markets. Europe should take inspiration from successful models such as Sweden in this area as well and focus on building an integrated equity ecosystem that supports innovation, growth, and ultimately the EU's financial sovereignty and strategic autonomy.

A regulator agreed that private and public markets are mutually reinforcing. Private markets play a vital role in financing innovation and should act as a bridge to public listing once companies mature, ensuring that Europe's investment ecosystem supports firms at every growth stage. Listing processes must, however, be simplified so that companies with proven business models can transition more easily to public markets. Valuation challenges compared with the US also need to be addressed.

Another industry speaker cautioned that most current European policy measures will do little to foster growth capital, a key driver of innovation and long-term growth. Retail investors are unlikely to enter this segment, and initiatives such as harmonising insolvency regimes, expanding supervision, or improving data access will have limited effect. Investors providing scale-up capital are not deterred by insolvency rules, as equity is typically lost by that stage.

Europe should treat growth companies as a distinct asset class and develop financing models suited to European entrepreneurs rather than replicating US-style private equity or venture capital approaches. Traditional US style private equity, reliant on high leverage and short-term control strategies, and venture capital, driven by high-risk, high-return strategies where only a few firms succeed, do not fit Europe's business culture. Entrepreneurs often decline external funding because current financing structures are poorly adapted to their needs. Developing flexible, partnership-based arrangements aligned with entrepreneurs' long-term vision is therefore key to encouraging uptake.

The industry speaker proposed a long-term minority investment model, targeting investments between €1 and €20 million and based on long term partnerships with entrepreneurs rather than control. This approach would allow companies to scale sustainably while preserving founder autonomy. A UK programme launched 15 years ago by a consortium of banks illustrates the model's success: its portfolio companies now generate turnover exceeding Malta's GDP and employ nearly 100,000 people. Such a model would not require new regulation but could be supported by an EU "growth capital" label, giving investors and companies greater visibility and confidence in these long-term partnerships.

Another regulator noted that the EU's regulatory framework is not always fully adapted to an economy largely composed of SMEs, where excessive complexity can create obstacles. Greater simplification and proportionality are needed, with fewer layers of complexity but without reducing the overall stringency of regulation.

An official stressed that venture-capital (VC) activity requires the existence of strong and diversified capital markets. Because VC funds are typically small allocations within large diversified institutional portfolios, a sustainable home-grown innovation ecosystem requires capital markets that are broad, deep, and liquid.

3. Combining top-down and bottom-up approaches

An official emphasised that combining EU-level initiatives with national and regional actions, as envisaged in the SIU Strategy, can be beneficial for smaller markets. In Latvia, EU measures have been complemented by targeted national policies to strengthen the SME segment, with a focus on helping firms prepare for public listing—especially in fast-growing sectors such as defence, now expanding due to higher regional security spending. Actions have also been implemented to boost retail participation through simpler tax incentives and to enhance market liquidity. At the regional level, the Baltic states have consolidated trading and post-trading infrastructures through a market-led initiative linking them to the Nordic capital-market system, successfully enlarging the market and improving efficiency for investors.

Another official noted that key drivers of long-term capital-market development, such as tax incentives and pension systems, remain outside EU competence. Genuine integration therefore requires bottom-up convergence among Member States alongside EU-level initiatives. The Baltic region illustrates this dual approach: beyond linking trading and post-trading infrastructures, it succeeded in convincing index providers to treat its jurisdictions as a single market through regulatory and financial alignment that went well beyond technical interoperability. A common covered-bond framework further demonstrates how regional coordination can deliver scale and liquidity.

The official added that full integration of European capital markets remains constrained by persistent legal and fiscal divergences, particularly in bankruptcy and taxation. National sovereignty is among the main barriers to harmonising insolvency frameworks: when tax authorities or courts need to enforce claims, such as seizing shares for unpaid taxes, they generally prefer to act under their own jurisdiction, as enforcement becomes complex and politically sensitive when assets are held abroad. These legal and sovereignty constraints hinder deeper integration. While a "28th regime" could provide a framework for cross-border enforcement, it should avoid adding unnecessary complexity. In the meantime, progress will depend on pragmatic regional ecosystems, where neighbouring countries share clearing, settlement, and, in some cases, trading infrastructures rather than seeking immediate full-scale integration.

A regulator considered that combining EU-level and national initiatives is the most effective way to strengthen public equity markets. At EU level, greater centralisation of oversight under ESMA would enhance supervision of cross-border and systemic infrastructures such as CCPs, while national supervisors should remain involved. At national level, barriers to cross-border trading and post-trading need to be removed, procedures harmonised and simplified, and listing frameworks made more standardised and transparent.

National reforms can also help make local markets more attractive. In Spain, a new simplified IPO procedure allows smaller companies to list on the regulated markets, delaying share placement for up to 18 months. This provides flexibility to choose optimal market conditions, which is particularly valuable for innovative, technology-driven SMEs. Cooperation between Member States can further support integration, as illustrated by the "Finance Europe" label developed under the Competitiveness Lab initiated by Spain and 6 other Member States to support SIU objectives. This voluntary label establishes a common European reference framework for retail investment products that channel savings into projects supporting Europe's strategic competitiveness.

Another regulator added that while supervision is often debated in discussions on integration and market competitiveness, supervisory structures alone do not drive market development. Adjustments in supervision must be accompanied by broader efforts to address the underlying structural inefficiencies of European markets.

Wrap up

The chair concluded that, despite differing perspectives, there was broad agreement among the panellists on Europe's potential to strengthen its capital markets and on the need to channel both household savings and institutional capital into productive long-term investment. Key challenges include persistent fragmentation, limited liquidity, and the difficulty for growth companies to progress smoothly from private to public financing. Strengthening the equity ecosystem, deepening market integration, and fostering a stronger investment culture emerged as central priorities.

Fragmentation must be addressed not only across equity exchanges but also in the broader market infrastructure, particularly post-trading, while debt and equity markets should develop in parallel. Further integration of smaller markets remains essential to ensure that progress benefits the entire Union. Maintaining an effective funding escalator from private investment to public listing was also seen as a key objective. Future efforts should focus on reducing complexity, improving proportionality, and providing greater space for market-driven solutions and public-private cooperation to advance the development and integration of EU capital markets.